**UNITED STATES DISTRICT COURT**
**FOR THE DISTRICT OF PUERTO RICO**

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| In re:<br><br>THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,<br><br>as representative of<br><br>THE COMMONWEALTH OF PUERTO RICO, *et al* Debtors[1] | PROMESA Title III<br><br>Case No. 17-BK-03283-LTS<br><br>(Jointly Administered) |
| In re:<br><br>THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO<br><br>as representative of,<br><br>THE PUERTO RICO SALES TAX FINANCING CORPORATION,<br><br>Debtor. | PROMESA Title III<br><br>No. 17 BK 3284-LTS |

**Declaration of José Israel Alameda Lozada, Ph.D., in support of Objection to Confirmation of Second Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation ("COFINA") [Case No. 17-3284, Docket Entry No. 380]**

I, José Israel Alameda Lozada, pursuant to 28 U.S.C. § 1746, hereby declare under penalty of perjury that the following is true and correct to the best of my knowledge, information and belief:

[1] The Debtors in these Title III cases, along with each Debtor's respective title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481), (ii) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686), (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808), (iv) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284) (Last Four Digits of Federal Tax ID: 8474), and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747).

1. I was retained by PROSOL-UTIER to study, *inter alia*, the scientific validity and feasibility of the Fiscal Plans for the Commonwealth of Puerto Rico and for COFINA and of the COFINA's Plan of Adjustment of Debt that is under consideration in this PROMESA Title III case.
2. As part of this assignment, I prepared a study titled *The Plan of Adjustment of Debt of COFINA: Sustainability and Financial Capacity of Puerto Rico's Economy* ("the Study") attached as an exhibit in support of the *Objection to Confirmation of Second Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation ("COFINA")* [Case No. 17-3284, Docket Entry No. 380]
3. In preparation for the Study, I personally and carefully reviewed all the relevant and necessary information and analyzed it in good faith, using due diligence and applying the scientific knowledge and methodology of Economics to determine with reliable certainty the following conclusions:
    a. The COFINA Plan of Adjustment of Debt will be effective for the next 40 years. This is a very long-range time frame, and too many unforeseen circumstances will be coming that would affect the feasibility for compliance of the plan. The Fiscal Plans have been designed under an implicit assumption of complete certainty; any margin of error has been taken away without any reasonable explanation.
    b. Any 40 years long run forecast of SUT collections from the FOMB, is highly uncertain, because Puerto Rico's economy faces an economic secular stagnation.
    c. The COFINA Plan saddles Puerto Rico with escalating debt payments for the next 40 years, even though the economy has been in a decade-long slump and will continue with marginal or negative growth for the next 40 years. The Fiscal Plans admitted this economic downturn.
    d. The Commonwealth Fiscal Plan forecasted a primary deficit for year 2035; rising the certainty of defaulting debt payment and, again, forcing new cuts to public pensions and essential services, as well as other austerity measures.
    e. The growth rates of nominal GNP and Consumption Expenditures have, in paper, the long-run capacity to repay COFINA bondholders, but they are unrealistic and so far, extremely optimistic. Overly optimistic assessments of those prospects are a sure recipe for failure.

f. The FOMB insists in the conventional assumption that the U.S. economy is the main driver of Puerto Rico's economic growth, which is no longer valid nor realistic due to secular stagnation.

g. The FOMB's economic foundations and policies ignored the Circular Cumulative Causation theory that refers to pervasive effects of any initial changes in relevant variables such as loss in population and governmental cuts of essential services.

h. A significant flaw of the FOMB's projections is that they are based only in one scenario or a single value, especially when the forecasting endeavor for a 40-years horizon is so risky. To be reliable, when projecting in such a long range, it is necessary to design different economic models to assess long run uncertainty.

i. On December of 2018, the government enacted a Tax Reform which reduced the rate to B2B and the SUT rate to 7% for prepared foods (See Table 7 of the Study). The COFINA Fiscal Plan does not consider the effects of such Tax Reform in the forecasted values.

j. Both Fiscal Plans focused narrowly over its timeframe range (until 2023) despite that the COFINA Agreement to Bondholders ranged a longer timeframe up to FY 2058. The COFINA Fiscal Plans skipped relevant circumstances beyond 2024, especially when most of the Federal Funds for Disaster Relief will be exhausted by that time. The timeframe of the Fiscal Plans and the COFINA Plan are inconsistent, thus fail to establish a foundation for its feasibility and the reliability of the projections.

k. Timing and pace of the influx of Federal Disaster Relief funds is uncertain and just for 5 years, while Medicaid funding is temporarily for the next two years. The FOMB's Executive Director, Natalie Jaresko admitted that any prolonged delay in the delivery of the funds destined for the recovery and reconstruction of the island, after the catastrophe caused from September 20, 2017 by hurricane María, can alter the Fiscal Plans. The effectiveness as a growth factor of the Federal Disaster Relief funds is also in question. Most of those funds have been assigned to non-local firms which are capturing over 90% of them. Those funds will leave Puerto Rico with none or little positive impact in the local economy. Furthermore, given the uncertainty of the arrival and timing of the Federal Funds for Disaster Relief, the

FOMB has no contingency plan to achieve the economic goals pursued in the Certified Fiscal Plan. Such economic uncertainty and the fragility of the assumptions and projections of the FOMB has led to several versions of the Fiscal Plan and there will be a continuous need to keep amending the Fiscal Plan once it is evident that its goals have not been met.

l. It would be irresponsible to expect the short-term Federal Disaster Relief funds to last and support a rising debt service burden for over 40 years. Indeed, federal budget transfers are due to fall off a cliff in just five years. Moreover, the Island's economic growth will be impeded by poor demographics, as the economically active population will likely continue to move to the mainland in search of better opportunities and access to essential services.

m. With Puerto Rico's limited ability to repay at the long run, a generous agreement with one set of bondholders necessarily reduces what the Commonwealth can reasonably offer to other bondholders and claimants and to cover for essential services and retirees. The sustainability of Puerto Rico's debt restructuring needs to be assessed comprehensively, not by looking narrowly at each piece of a bigger puzzle.

n. The effects of a waning economy will result in a constant yearly reduction in SUT revenues for the Commonwealth. By giving COFINA a "first dollars" claim on the SUT, it will increase the risk of a substantial decline in tax revenues of the Commonwealth of Puerto Rico. Over the 40 years term of the COFINA Plan almost 1 billion dollars of the Commonwealth's SUT funds will be lost. (See Table 11 of the Study)

o. Reducing COFINA's payments to its bondholders would result in the availability of more resources to the General Funds of the Commonwealth, and consequently, more revenues that could be allocated to finance essential services and other governmental obligations for the population and the pension liabilities as required by Section 201 of PROMESA.

4. Based on the foregoing, and to the best of my knowledge, information and belief, the information contained in the Study is true and scientifically reliable.

5. It is my opinion that: (1) the COFINA Plan of Adjustment of Debt is uncertain and totally unreliable; (2) the COFINA Plan cannot be consistent with the Fiscal Plans because they are uncertain and totally unreliable; (3) the Fiscal Plans and the COFINA Plan of Adjustment of Debt are not feasible; (4) the Fiscal Plans and the COFINA Plan do not ensure the funding of essential public services; (5) the Fiscal Plans and the COFINA Plan do not provide adequate funding for public pension systems; (6) the Fiscal Plans and the COFINA Plan do not provide for the elimination of structural deficits; and, (7) before or after 2034, the Fiscal Plans and the COFINA Plan will lead Puerto Rico to another default of payment in the bondholders obligations. In sum, the Fiscal Plans are not economically feasible and lack scientific reliability to develop dependable revenue and expenditures projections, which are indispensable to address the confirmation of the COFINA Plan.
6. Also, I have personally reviewed the *Objection to Confirmation of Second Amended Title III Plan of Adjustment of Puerto Rico Sales Tax Financing Corporation ("COFINA")* [Case No. 17-3284, Docket Entry No. 380] with the exhibits thereto, and agree that it reflects with rigor the findings of the Study.
7. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge and belief.

Dated: December 31, 2019

José Israel Alameda Lozada